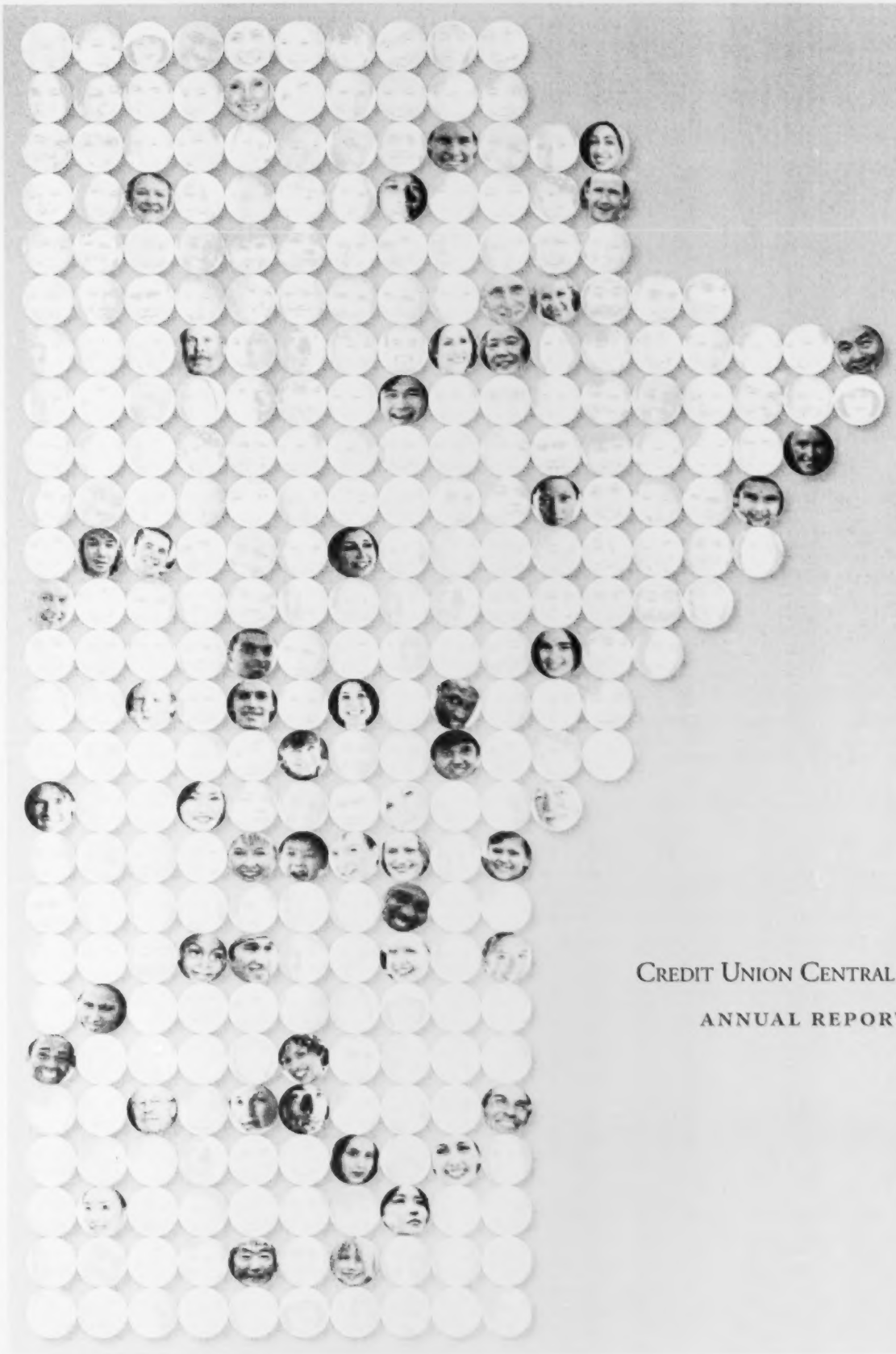


CREDIT UNION CENTRAL *of* MANITOBA

ANNUAL REPORT 2006

Manitoba's Credit Unions

District structure effective January 1, 2007

[DISTRICT 1]

Steinbach CREDIT UNION [2 BRANCHES]

[DISTRICT 2]

Assiniboine CREDIT UNION [25]

[DISTRICT 3]

Cambrian CREDIT UNION [11]

[DISTRICT 4]

Alliance CREDIT UNION [2]
Belgian CREDIT UNION [1]
Buffalo CREDIT UNION [1]
Casera CREDIT UNION [3]
Civic CREDIT UNION [4]
Entegra CREDIT UNION [3]
Me-Dian CREDIT UNION [1]
North Winnipeg CREDIT UNION [1]
Winnipeg Police CREDIT UNION [1]

[DISTRICT 5]

Carpathia CREDIT UNION [3]
Crosstown CREDIT UNION [4]
South Interlake CREDIT UNION [9]

[DISTRICT 6]

Arborg CREDIT UNION [2]
Dauphin Plains CREDIT UNION [3]
Eriksdale CREDIT UNION [3]
Ethelbert CREDIT UNION [2]
Flin Flon CREDIT UNION [1]
Gimli CREDIT UNION [2]
Grandview CREDIT UNION [1]
Riverton CREDIT UNION [1]
Roblin CREDIT UNION [2]
Rorketon & District CREDIT UNION [1]
Ste. Rose CREDIT UNION [1]
Swan Valley CREDIT UNION [2]

[DISTRICT 7]

Amaranth CREDIT UNION [1]
Austin CREDIT UNION [4]
Beautiful Plains CREDIT UNION [2]
Crocus CREDIT UNION [2]
Cypress River CREDIT UNION [2]
Erickson CREDIT UNION [1]
Hartney CREDIT UNION [1]
Minnedosa CREDIT UNION [1]
Portage CREDIT UNION [3]
Sandy Lake CREDIT UNION [1]
Strathclair CREDIT UNION [4]
Tiger Hills CREDIT UNION [2]
Turtle Mountain CREDIT UNION [3]
Virden CREDIT UNION [4]

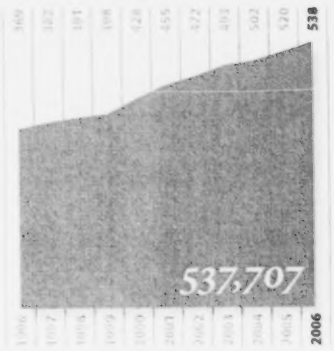
[DISTRICT 8]

Agassiz CREDIT UNION [5]
Community CREDIT UNION [3]
Dufferin CREDIT UNION [1]
La Salle CREDIT UNION [1]
Lowe Farm CREDIT UNION [1]
Niverville CREDIT UNION [2]
Oak Bank CREDIT UNION [2]
Rosenort CREDIT UNION [1]
Sanford CREDIT UNION [2]
Starbuck CREDIT UNION [2]

[DISTRICT 9]

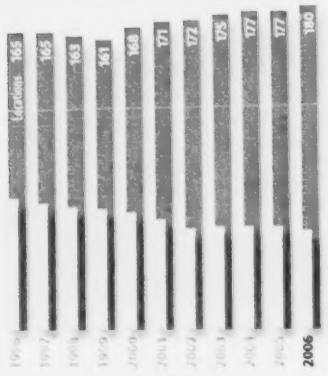
Altona CREDIT UNION [2]
Heartland CREDIT UNION [3]
Vanguard CREDIT UNION [13]
Westoba CREDIT UNION [19]

Memberships (thousands)



Since December 31, 2005, memberships in Manitoba credit unions increased by 17,800. Of the 537,707 memberships in Manitoba credit unions at year-end 2006, 241,352 (45%) were in Winnipeg-based credit unions and 296,355 (55%) were in credit unions outside Winnipeg. While not every membership corresponds to a single individual, Manitobans have opened an impressive 83,000 credit union memberships since 2001.

Number of Credit Unions & Locations



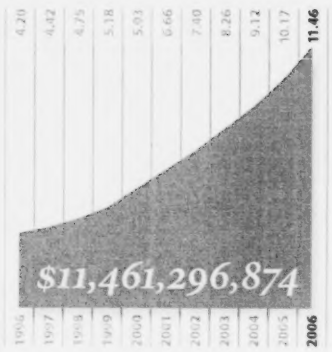
Assiniboine, Astra and Vantis credit unions officially merged January 1, 2007, which brought the number of credit unions in the province down to 55. With one closure (Buffalo–HSC) and four new locations (Assiniboine–Rivergrove, Entegra–Disraeli and Casera–St. Vital in Winnipeg and Westoba–Kirkaldy in Brandon) the number of branches now stands at 180. There are more credit union branches than ever in Manitoba. The number of ATMs increased by 12 to 198, with several more slated for installation early in 2007, adding to the provincial and national surcharge-free credit union network where members can use any credit union ATM without paying more than they would at their home branch.

MANITOBA CREDIT UNIONS

serve more than 100 communities throughout the province, giving Manitobans substantially better access to quality financial services and products than any other financial institution.

Altona • Amaranth • Angusville • Arborg • Ashern • Austin • Baldur • Beausejour • Belmont • Benito • Birds Hill • Binscarth • Birtle Boissevain • Brandon • Bruxelles • Carberry • Carman • Cartwright • Cypress River • Dauphin • Deloraine • Dominion City • Emerson Erickson • Eriksdale • Ethelbert • Flin Flon • Foxwarren • Fisher Branch • Gimli • Gilbert Plains • Gillam • Gladstone • Glenboro • Glenella Grandview • Gretna • Grunthal • Hamiota • Hartney • Headingley • Holland • Inglis • Inwood • Kenton • Killarney • Lac du Bonnet Landmark • La Riviere • La Salle • Lowe Farm • MacGregor • Manitou • Mariapolis • McAuley • Melita • Miami • Miniota • Minitonas Minnedosa • Minto • Moosehorn • Morden • Morris • Neepawa • Newdale • Ninette • Niverville • Oak Bank • Oak Bluff • Oak Lake Oak River • Oakburn • Oakville • Pilot Mound • Pinawa • Pine Falls • Pine River • Plum Coulee • Plumas • Portage la Prairie • Reston Rivers • Riverton • Roblin • Rorketon • Rosenort • Rossburn • Russell • St. Lazare • Ste. Rose du Lac • Sandy Lake • Sanford • Selkirk Shilo • Shoal Lake • Souris • Sprague • Starbuck • Steinbach • Stonewall • Strathclair • Swan Lake • Swan River • Teulon • The Pas Thompson • Treherne • Virden • Vita • Waskada • Whitemouth • Winkler • Winnipeg • Winnipeg Beach • Winnipegosis

System Assets (billions of dollars)

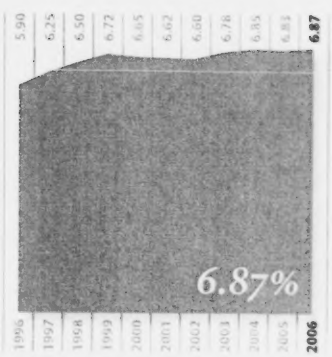


Total credit union assets stood at $11,461,296,874 on December 31, 2006. Winnipeg-based credit unions accounted for $4.89 billion (43%) of total assets and credit unions outside Winnipeg accounted for $6.57 billion (57%). Collectively, credit union assets grew by 12.7% over 2005. This is the provincial credit union system's seventh straight year of double-digit asset growth and assets have doubled since the third quarter of 2000. New membership and account consolidation are two major growth drivers: 78% of Manitoba members now consider their credit union their primary financial institution, and the proportion of members very likely to recommend their credit union to friends and family continues to outstrip bank customers by a wide margin.

Loans and Deposits (billions of dollars)

2006 again saw double digit growth in both loans and deposits. All categories of loans grew by 11.3%, led by personal loans at 14.2%, of which residential mortgages showed a 16.5% increase. Commercial loans, being mainly real estate secured, showed growth of 11.2% while agricultural loans grew by a more modest 6.3%, which is not surprising given the less-than-robust agricultural economy during the year. Credit unions continued to attract deposits by offering members and potential members highly competitive rates, resulting in growth of 13.8% (up from the 10.4% increase recorded in 2005).

System Equity (as a percentage of assets)



Consolidated system equity grew by $93.4 million over the course of 2006, ending the year at $788 million. This figure includes $684 million in credit union equity, $97.8 million held by the Credit Union Deposit Guarantee Corporation (CUDGC) and $6.2 million held by CUCM, whose policy is to return most earnings to its owners and retain only a small reserve. A strong equity position is a key measurement of the strength of credit unions and the entire Manitoba system. In addition to the security that comes from a strong equity position, CUDGC provides a 100% guarantee on all member deposits.

All figures preliminary unaudited results

Where credit unions have Winnipeg and non-Winnipeg branches (Assiniboine, Cambrian and Steinbach), the location of the home branch is used for these statistics

CREDIT UNION CENTRAL OF MANITOBA [CUCM]

is the trade association for the province's 55 autonomous credit unions. As prescribed by *Manitoba's Credit Unions and Caisses Populaires Act*, CUCM manages liquidity reserves, monitors credit granting procedures and provides financial and other services to credit unions including banking, treasury, corporate governance, government relations, representation and advocacy, and legal services. As well, credit unions have access to payment and settlement systems, human resources, research, communications, marketing, planning, lending, product/service R&D and business consulting through CUCM. Manitoba credit unions jointly own CUCM and representatives from nine provincial districts sit on its board of directors. CUCM is financed through assessments and fee income derived through its operations.

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[MISSION]

CREDIT UNION CENTRAL OF MANITOBA [CUCM] EXISTS TO:
Help Manitoba's credit unions meet their business needs
Assist Manitoba credit unions in providing services to their members
Provide trade association services for Manitoba's credit unions
Value/promote co-operative principles

[CORPORATE VALUES]

RESPECT FOR PEOPLE
All individuals are highly valued and are treated equitably.

INTEGRITY
We are reliable in our word, honouring commitments and promises.

EXCELLENCE
In all we do, we are committed to the highest standards of performance, competence, and efficiency.

SERVICE
We serve Manitoba credit unions and their members.
We steward the assets and affairs of the corporation for the benefit of Manitoba credit unions.

[GUIDING PRINCIPLE]

Learn from the past, excel in the present and prepare for the future.

Message from the

CHAIRMAN

Two thousand six was the seventh consecutive year of double-digit growth for credit unions in Manitoba. Total loans increased by 11.3 per cent, deposits by 13.8 and total credit union assets by 12.7, with equity keeping pace at 6.87 per cent of total assets. Manitobans opened 17,800 new memberships at Manitoba credit unions and four new branches opened, three in Winnipeg and one in Brandon, bringing the number of locations to 180 — an increase of 15 since 1997.

In the past two years, banks have come to see what credit unions have known all along — that, even with 24/7 remote access, financial institutions must offer choice when it comes to how members and customers receive services — and have started opening new branches across the country, after spending much of the last decade closing them.

The Manitoba system saw its first merger activity in four years. Vantis, Astra and Assiniboine credit unions presented the merits of the opportunity to their 100,000 members through print, the web and in person. At meetings in September, their members voted overwhelmingly to proceed, thus creating the province's largest credit union in terms of branches and membership and second-largest in assets. The merger took effect January 1, 2007.

Merger activity — among credit unions in all provinces and the provincial Centrals — is one of the indicators of change the board of Credit Union Central of Manitoba (CUCM) has been following in its scenario planning process. The process started in June 2005, when we examined three broad scenarios of what the Manitoba credit union system might look like in 2015. We then identified key indicators to monitor to determine the direction in which the system was headed. In addition to merger activity, the indicators include credit union performance, national system activities and performance, Credit Union Central of Canada activities, and external environment indicators such as the economy. Management provides the board with semiannual updates on the indicators and we will continue to monitor the environment in order to ensure that CUCM makes changes in its operations that are responsive to changing credit union needs.

And while nothing occurred in the provincial or national credit union systems that directly affected Manitoba credit unions to any significant degree in 2006, change was a regular topic of discussion at all levels of the system.

A report called *If Not Now, When?* was produced by a number of large Canadian credit unions to investigate the consolidation of the provincial Centrals into one national operating entity. The report indicated that merging Centrals would reduce costs, more efficiently allocate and utilize capital, concentrate professional expertise, provide better governance,

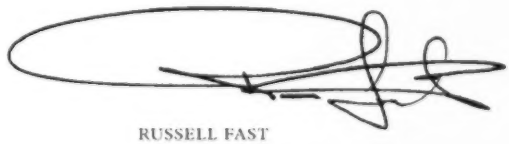
improve focus and give credit unions one national voice. To address some of the fundamental questions being raised about system structure, Canadian Central established the *National Task Force on Credit Union System Reform* but decided to discontinue it when a number of the concerns that led to its establishment were addressed by an announcement in October by B.C. and Ontario. The two Centrals announced their intention to create a new national business entity to serve their credit unions and others across the country. The proposed venture would create a combined liquidity pool offering, payment services, Internet banking and commercial lending services. Trade association services would continue to be provided by the two Centrals. The memberships of these two organizations will vote on the proposal at their upcoming annual meetings.

The three Prairie Centrals also continued discussions on working more closely together and, potentially, further consolidating services. CUCM's board and management developed a set of operating principles that Alberta and Saskatchewan's boards examined in early 2007. These discussions are ongoing.

For years, CUCM has been faced with an unusual task: to continue to efficiently run a business in an environment in which many drivers are pushing for the consolidation of the services CUCM provides. Through these discussions, CUCM has worked diligently to provide Manitoba credit unions with the products and services they require to serve their own members — and has done so while keeping cost increases at a minimum. In terms of growth and performance, the Manitoba credit union system is consistently among the very strongest in Canada, aided in part by the strong services from CUCM.

CUCM also provides something from which all Manitoba credit unions benefit — leadership. Leadership in examining the issues, scanning the horizon for things that will affect the industry and in helping credit unions work together on projects and initiatives of common interest. Chief Executive Officer Garth Manness and his CUCM colleagues provide that leadership and work with credit unions to ensure that CUCM is efficiently fulfilling its role as trade association and service provider for its member credit unions.

I would like to acknowledge and thank my colleagues on CUCM's board who continue to provide leadership to their districts and the system as a whole. In devoting their time, energy and understanding to the business and the issues that make a difference to all Manitoba credit unions, they continue to provide invaluable service to the Manitoba credit union system.



RUSSELL FAST
Chairman, Board of Directors

CREDIT UNION CENTRAL *of* MANITOBA

BOARD OF DIRECTORS

CHAIR

DISTRICT 1

Russell Fast

Executive Committee

DISTRICT 2

Al Morin

Audit/Conduct Review Committee

DISTRICT 3

Frank Pisa

Committees: Investment, Level IV System Credit [CHAIR]

DISTRICT 4

Dave Abel

Committees: Audit/Conduct Review, Investment, Level IV System Credit

DISTRICT 5

Glenn Karr

Committees: Investment [CHAIR], Level IV System Credit [VICE CHAIR]

DISTRICT 6

Alex J. Eggie

Committees: Investment [VICE-CHAIR], Audit/Conduct Review [CHAIR], Bylaws & Resolutions [CHAIR]

DISTRICT 7

Norval Lee

Audit/Conduct Review Committee [VICE-CHAIR]

FIRST VICE-CHAIR

DISTRICT 8

Alexander (Sandy) Wallace

Committees: Executive, Level IV System Credit

SECOND VICE-CHAIR

DISTRICT 9

Wayne McLeod

Executive Committee

[VISION]

CUCM serves Manitoba's credit unions by providing leadership and ensuring the delivery of high value products and services that help them achieve their vision.

Message from the President and

CHIEF EXECUTIVE OFFICER

Through the many changes CUCM and credit unions have experienced in the first decade of this new century, CUCM's Vision Statement has been a constant.

Our Vision defines our overall goal, our Mission defines what we do and for whom, and our Corporate Values provide guidance to management and staff in working with all stakeholders but specifically Manitoba credit unions as clients, allies and partners to reach specific business goals. Taken together, these statements identify our reasons for being and outline where we want to go. They also provide credit unions — our members and shareholders — with standards by which to judge our performance.

The Vision also provides the company with an effective litmus test. For CUCM to proceed with the development of new products, services or service delivery mechanisms — or initiatives with partners elsewhere in the credit union system — they must first be shown to have the potential to help Manitoba credit unions be successful. The Vision helps us evaluate them and, in so doing, makes us more vigilant.

Helping credit unions achieve their visions means being open to beneficial opportunities, continually working to create a service organization that meets the needs of credit unions and their members, offering quality products and services at competitive prices and being responsive to issues that arise in the system from time to time. Value is paramount to credit unions and we continually strive to improve the value of CUCM's services, as well as our efficiency, productivity and levels of innovation. We also strive to stay relevant to credit unions by monitoring the marketplace and acting on information we gather.

Being open to, looking for and evaluating opportunities for consolidation — as we did with the Centrals of Alberta and Saskatchewan, CUETS and Concentra Financial in the creation of Celero — is an important function of CUCM, and we will continue to evaluate consolidation or partnership opportunities for CUCM on their merits and potential value to Manitoba credit unions. CUCM will continue to work with partner organizations on behalf of Manitoba credit unions; over the next several years, for example, we will work with CUCC, Everlink, CUETS and other Centrals and credit unions nationally in preparing for the enormous undertaking of migrating credit union debit and credit card products to chip technology.

CUCM is continually examining the products and services it offers credit unions and the way it delivers them. This examination will involve all departments in 2007, as the company will work with its stakeholders to identify the best delivery model for each product or service we provide to credit unions.

We will also examine how Centrals in other provinces deliver products and services, which will not only show us best practices but also assist in our monitoring of the industry and system for indicators of change. If we find a way to deliver a product or service to credit unions that is better, faster or less expensive — whether we do it ourselves or through relationships with one or more of our various partners — we will. For example,

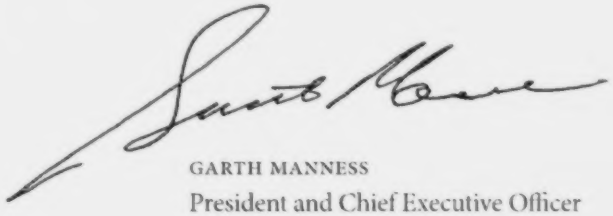
we will be watching with interest the consolidation of the operational areas of the B.C. and Ontario Centrals and their creation of a new business entity aimed at improving service to credit unions in Ontario and B.C. and, potentially, beyond. At the same time, we will work diligently with the Centrals of Alberta and Saskatchewan to look for added value to credit unions through further consolidation of services.

In 2006, CUCM's efforts on behalf of credit unions were expressed in a number of important areas: assisting credit unions with the new CICA financial instruments accounting standards; bringing credit unions together with key suppliers on the chip card strategy; involving credit unions in discussions surrounding the various consolidation discussions taking place at the national and regional levels; representing credit unions on the Special Strategy Committee on Bank Mergers and SME program; participating in the mandate review of Credit Union Central of Canada; preparing for TECP implementation; representing credit unions' best interests in the provincial law review process; and reviewing the System Credit Committee process.

On April 21, 2006, blessed by a beautiful Manitoba spring day, CUCM and Celero officially opened our new premises. Late in the year, our board decided to exercise CUCM's option to purchase 317 Donald. After completing a business case analysis of leasing versus purchasing, we determined it was in CUCM's best interests to purchase. In addition to owning a valuable piece of property in downtown Winnipeg, the decision also made symbolic sense as it further reinforces the commitment by all credit unions in Manitoba, mirrored in their Central, to the communities in which they operate.

CUCM's commitment to Manitoba credit unions extends throughout the company, from every employee to each member of the executive management team. Their commitment to CUCM's corporate values — respect for people, integrity, excellence and service — is reflected in their work, their professionalism and their dedication. For all of their efforts in support of credit unions and CUCM in 2006, I would like to express my gratitude and appreciation.

Credit unions' representatives on the CUCM board put in many hours of work and study in order to come to meetings well prepared and eager to tackle the issues and tasks on the agenda. In addition to regular meetings, they sit on committees and represent CUCM on the boards of a number of related organizations. Chairman Russ Fast of District 1 provides intelligent and skillful leadership in guiding his eight colleagues through the many issues that come before the board each year. Senior management at CUCM and I greatly appreciate Russ's leadership and the enduring commitment and dedication of the entire board. Thank you.



GARTH MANNESS
President and Chief Executive Officer

CREDIT UNION CENTRAL *of* MANITOBA

EXECUTIVE MANAGEMENT

Garth Manness

PRESIDENT *and*
CHIEF EXECUTIVE OFFICER

Dale Ward

CORPORATE SECRETARY

Corporate Governance | Privacy Officer
Ombudsman | Legislative Compliance
Manuals | Printing & Supply

Bob Lafond

DIVISION MANAGER,
CORPORATE SERVICES

Corporate & Government Relations
Public & Media Relations
Communications | Marketing

Wilson Griffiths

DIVISION MANAGER,
BANKING & PAYMENT SERVICES

Clearing | Banking Services
Technology Support, R&D

Mike Safiniuk

TREASURER *and*
CHIEF FINANCIAL OFFICER

Finance & Administration
Treasury Services | Controller

Brian Peto

DIVISION MANAGER,
HUMAN RESOURCES & CONSULTING

Human Resources | Payroll | Training
HR Consulting

Audrey Maeren

DIVISION MANAGER,
STRATEGIC SOLUTIONS

Project Management | Research & Planning
Business Consulting

Bernard C. Carling

DIRECTOR, LENDING SERVICES

System Credit

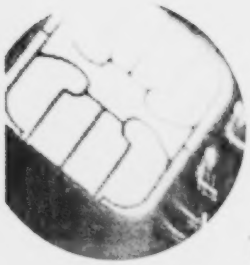
One of the roles of Credit Union Central of Manitoba, as the trade association for Manitoba's 55 credit unions, is to help coordinate the efforts of provincial credit unions with those of our partners and associates on national initiatives that affect the entire system.

The industry-wide effort to improve Canadian debit and credit card security is one such initiative.

Fraud is a major and growing concern for debit and credit card providers the world over and they are responding vigorously. A key component of that response is the development of microcomputer-embedded cards that provide far greater security than the current magnetic stripe technology. In 2005, Canada's Interac Association mandated that all new ATM and point-of-sale (POS) devices must meet chip specifications after December 31, 2007 and that magnetic stripe cards will not be allowed for ATM withdrawals after 2012 or POS transactions after 2015.

Implementing the new technology and meeting Interac's deadlines will be a huge effort for all Canadian financial services providers.

In 2006, CUCM continued to play a role on the **Chip Strategy Task Force** (CSTF) that was struck by Canadian Central to coordinate the efforts of Canadian credit unions and their primary credit and debit card suppliers, CUETS and Everlink, within the national credit union system. In addition to CUCM, Manitoba credit unions were represented by Altona Credit Union General Manager Barry Lundin. By the end of the year, the committee had presented its recommendations.



The findings of the CSTF clearly support the value of credit unions working together

The findings of the CSTF clearly support the value of credit unions working together to develop common solutions to minimize implementation risks and development costs, decrease time to market and simplify the implementation of future enhancements.

The primary recommendation of the CSTF is to adopt a common approach that provides a suite of flexible and complementary systems and service components for chip card implementation — and to achieve this through a partnership with CUETS and Everlink, while validating the joint approach and pricing through an independent review.

The CSTF also recommended that the national credit union system should plan to migrate 100% of cards and devices six months ahead of Interac target dates, establish common standards that reflect minimum requirements for chip card payment applications, participate in the Kitchener-Waterloo market launch and establish a National Chip Steering Committee to support implementation of Chip Strategy that will include marketing, operations, training and governance.

If and when the federal government allows bank mergers, there will be significant changes in the financial services industry in Canada — and credit unions will need to understand the changes and be positioned to capitalize on any opportunities that may present themselves.

The Canadian Payments Association (CPA) is leading an industry-wide initiative to adopt a new clearing process based on cheque images instead of the original cheques. Formally referred to as **Truncation and Electronic Cheque Presentment** (TECP), this initiative is targeted for full industry-wide implementation by the end of 2009. In 2006, CUCM continued to work with hardware and software vendors to develop required changes to its cheque-processing systems. Preliminary testing was completed in 2006 and Central is on track to participate in industry-wide testing scheduled for February 2008.

If and when the federal government allows bank mergers, there will be significant changes in the financial services industry in Canada — and credit unions will need to understand the changes and be positioned to capitalize on any opportunities that may present themselves. For that reason, Credit Union Central of Canada appointed a **Special Strategy Committee on Bank Mergers** (SSC), in 2004, made up of representatives from across the country.

The issue of bank mergers first came to the fore in 1998, when the Bank of Montreal and the Royal Bank, then TD and CIBC, asked the government for permission to merge. They were denied, but the federal government began to look into the issue and indicated that banks would have to address several public interest issues before they would be allowed to merge.

Among the government's concerns was — and is — the need for a strong second tier of financial institutions in Canada. The Special Strategy Committee's role has been to present credit unions as that strong second tier. Thus far, its work has focused on four primary areas: a branch acquisition strategy; an ATM strategy, work on which was made easier when virtually all Canadian credit unions agreed in 2006 to a surcharge-free national credit union ATM network; a Community Leadership Initiatives Committee focused on access to financial services for at-risk communities and individuals; and an SME strategy.

While the **SME strategy** calls for the development of a nationally branded SME offering through credit unions that would consist of a standardized menu of services, the committee was hard at work through 2006 getting buy-in from credit unions for a national advertising campaign aimed at the owners of small- and medium-sized enterprises. While Manitoba credit unions, already leaders in the Manitoba SME market, chose not to participate, a series of national TV ads ran in Manitoba in early 2007.

In January 2005, the Canadian Institute of Chartered Accountants (CICA) **Accounting Standards** Board issued new rules governing fair value accounting for financial instruments. While the rules apply to all business in Canada, they have particular significance for financial institutions, including Manitoba's credit unions and CUCM.

During 2006, the Finance & Administration Division led two initiatives related to the new CICA rules — providing system-wide training, advice and practical solutions to credit unions and assessing the impact of the new rules on CUCM. CUCM also provided various stakeholders with high-level briefings that outlined guiding principles and an initial impact assessment of the rules. The full impact of the new rules will materialize for credit unions and CUCM in their fiscal years commencing on or after October 1, 2006.

CUCM created a project team to manage its transition to the new rules for its 2007 fiscal year, which commences January 1, 2007. The new rules will be implemented in the early part of 2007 and will result in the majority of CUCM's financial instruments being reported at fair value.

Working through the system's **Law Review Committee** process, which also involves the Financial Institutions Regulation Branch of the Consumer and Corporate Affairs Division of the provincial Department of Finance and representatives of the Credit Union Deposit Guarantee Corporation (CUDGC) and the caisse populaire system, CUCM continued to try to bring about amendments to a number of *Credit Unions and Caisses Populaires Act* and regulation provisions. Substantial progress was made on many of them, including rules that specify if and when members must be consulted on new branch openings/relocations, branch closures and investments in eligible corporations. Other items included the amount credit unions can invest in land and buildings dedicated to branch service, participation in loans and syndications outside Manitoba and the rights of members to access credit unions' entire registries and call special meetings. Work on the current package of amendments will continue into 2007.

CUCM continued to try to bring about amendments to a number of Credit Unions and Caisses Populaires Act *and regulation provisions. Substantial progress was made on many of them.*

CUCM, along with the Cooperative Superannuation Society (CSS), continued to lobby the provincial government for **pension regulation change** in 2006. The companies suggested — and the government committed to — changes that would let pension plans such as CSS offer their members LIF-type products that would allow for the withdrawal of funds directly from their pension plans. Lobbying also continued on increasing the annual pension withdrawal rate from six to eight per cent. While discussions continue, the government appears steadfast in its unwillingness to move all the way to eight per cent.

In 2006, the System Credit Committee (SCC) took a number of positive steps to improve service to credit unions and further comply with the spirit of the committee role in the system credit process. Along with CUDGC, SCC identified a number of areas for enhancement

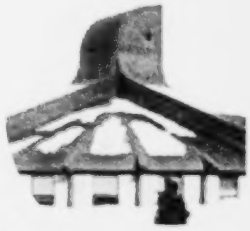
that would provide SCC Levels I, II and III with higher limits and expanded authority to deal with the more sophisticated credit requests, provide credit unions with faster service to their members, and ensure that the relevance and integrity of SCC Level IV remains at a high level and is within the spirit of the Basel II accord. It also recommended that a credit not approved by SCC Level IV follow an appeal process that occurs at a different date from when the credit was originally reviewed, that training be provided to SCC Level IV representatives where deemed necessary, and that the role of the CUDGC observer be better defined.

ENHANCING PRODUCT AND SERVICE OFFERINGS FOR CREDIT UNIONS

In mid-year, Treasury Services expanded the number of financial institutions surveyed and added new deposit and mortgage products to its **Interest and Mortgage Rate Surveys**. The departments also reformatted the document in order to present the information more clearly to its credit union audience. These surveys cover a wide array of deposit and mortgage products available from banks, virtual banks, brokers and other financial institutions. Pricing of the mortgage products includes the net impact of cash-back offers and other features.

The **Human Resource Skills Assessment** report was presented to Manitoba credit unions in the fall of 2006. This project was undertaken to identify current issues in human resources and to provide a framework within which to develop plans to minimize the increasing risks to credit unions of current and future skills shortages.

Introduced in 2005, more credit unions subscribed to CUCM's new **Internal Audit Service** in 2006. The service helps credit unions meet the requirements for internal audit control as articulated in CUDGC's standards of sound business practice. Support for the service has met expectations, with further research and business case development continuing within the broader context of Enterprise Risk Management.



Following the Manuals Centre's successful launch in 2005 of a new and improved set of Standard Charge Mortgage Terms, Lending Services hosted a series of **SCMT Workshops** in Winnipeg and Brandon to instruct credit union and caisses populaires lending personnel in the correct completion of these documents.

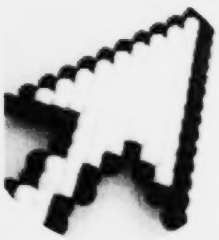
The Aboriginal market is an important one in Manitoba for all businesses, including credit unions

Currently, 15 per cent of all Manitobans and eight per cent of Winnipeggers are Aboriginal. Estimates peg the provincial population of First Nations, Inuit and Métis at 19 per cent by 2026. The Aboriginal market, therefore, is an important one in Manitoba for all businesses, including credit unions, and will continue to increase in importance. Recognizing this, some Manitoba credit unions have developed strategies focused on the Aboriginal community that have resulted in successful business ventures and community economic development. In 2006, CUCM published an **Aboriginal Strategy Report** that provided credit unions with statistics-based research that highlights the promise and challenges of working within and with Aboriginal communities today and in the future.

In 2005, CUCM, in partnership with Vision Critical, a leading Canadian company in online market research, introduced an innovative online tool for market surveys for Manitoba credit unions, **Credit Union Advisor**. Members voluntarily enrol in a panel that the credit unions can call on at any time to gather opinions and feedback on any topic. The tool results in significant cost savings compared to traditional survey methods. Twenty-three surveys were conducted in 2006 for Celero, CUCM and credit unions in areas of board and committee evaluations, member satisfaction and employee satisfaction.

Late in the year, Credit Union Central of Canada chose the CUCM – Vision Critical solution as the supplier for the national system's Community Involvement Survey

The tool was also offered to Saskatchewan and Alberta credit unions, Centrals and other organizations in the national system in 2006 and, late in the year, CUCC chose the CUCM – Vision Critical solution as the supplier for the national system's Community Involvement Survey.



Strategic Solutions expanded its **consulting** offerings in 2006 and engaged in a number of significant initiatives to help member credit unions achieve business success. Assistance was provided to pursue new business opportunities, plan for the future (scenario planning), determine member satisfaction, garner naming rights, manage projects, support bylaw changes, advise on business expansions and facilitate mergers.

In 2006, CUCM continued to consider the usefulness and user-friendliness of its various e-communications vehicles, which are now well established as the company's primary — and, in some cases, exclusive — method of communicating with credit union personnel at all levels, elected officials and external audiences including the general public.

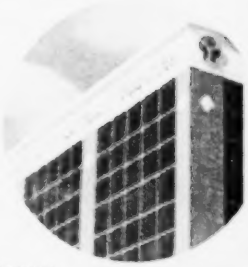
To ease navigation through the hundreds of pages of information that pertain to the many regulations, procedures, forms and policies associated with the day-to-day operations of a credit union, a number of improvements were incorporated into the **E-Manuals site** in 2006. Links were added between pages, appendices and cross-references to other E-Manual pages and Internet sites. Commonly referenced non-CCSM forms, such as the Mortgage Amending Agreement, were added to the Forms Library and the site map was expanded. Going forward, the department has asked that Celero involve it in the early stages of the process of conversions to the eroWORKS banking platform in order to ensure that Manuals content and forms are modified to reflect the workings of the new system.

Using Celero's Web design services, Corporate Services carried out a major update and renovation of the **Manitoba's Credit Unions public website**, www.creditunion.mb.ca. It was the first facelift for the site since the late 1990s and involved cutting redundant material, brightening the overall look and making it more user-friendly. The purpose of the site is to educate the public about credit unions in general, then direct them to credit union sites where they can get more specific information including, ideally, how to join the credit union.

Celero's migration of CUCM e-mail services to a new eroWorks server provided the opportunity to update the e-mail address extension for CUCM personnel. The former address extension, @creditunion.mb.ca, was the same as the Manitoba Credit Unions public site and did not reflect CUCM's identity or role. The new extension, **@cucm.org**, spells out the company acronym and identifies CUCM as a trade association.

In 2006, Printing & Supply built and launched **www.printingandsupply.ca**, a new Internet-based website, to allow customers to view high-quality images of products prior to purchasing. In December, the department contracted Celero to install shopping cart functionality that, when launched in 2007, will allow credit unions to purchase items online. The marketing of Printing & Supply products was also given a boost as additional resources from Corporate Services were brought in to enhance the presentation of specialty and stock items. The department also worked closely with external suppliers — notably in the area of office products — to facilitate online ordering and further reduce customers' purchasing and shipping costs.

Printing & Supply also began discussions with the supply departments of **Alberta and Saskatchewan Centrals**. In their early stages, discussions are focused on examining ways in which all three operations can save money by pooling their purchasing power on items in common use by credit unions across the Prairies.



TAKING CARE OF CUCM BUSINESS

On the heels of a business continuity plan developed for Banking and Payment Services, CUCM updated the corporate **disaster recovery plan** and began a major project to help all CUCM departments develop their own. This work will continue through 2007, as will the work of the **Pandemic Preparedness Planning Committee**, whose task is similar but isolated to how CUCM would continue to deliver services to credit unions should a major pandemic occur that could potentially affect staffing levels and service availability.

During 2006, considerable efforts continued towards securing a new **treasury investment solution**. A treasury system expert had been engaged in late 2005 to ensure that CUCM's unique needs were being met and to guide CUCM through the selection process. During the first half of 2006, the Finance Division completed an extensive search for a new system. As the acquisition and installation costs for the recommended supplier's solution were higher than expected, CUCM initiated discussions within the co-operative system to determine the level of interest in working together to find a common solution. Since a collaborative solution would meet common needs and reduce individual organizational costs, a number of organizations did express interest; steering committee and working group meetings were held and will continue. A decision on a common system is expected in 2007.

In light of the direction taken on finding an investment administration solution, the third and fourth quarters of 2006 saw the Finance Division undertake a major project to

develop short-term solutions to allow for the implementation of the new CICA Financial Instrument standards.

The division also undertook a review of the workload and current resources in the **Controllers department**, which resulted in a recommendation to increase department resources to meet ongoing operational and project work expected in the next several years.

New job opportunities at CUCM are communicated to organizations dedicated to finding employment for Aboriginals, visible minorities and disabled persons

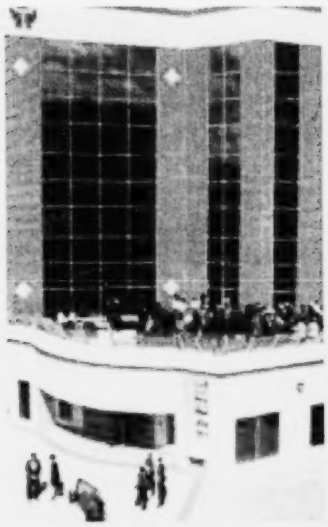
In adherence with its employment equity policy, CUCM ensures that new job opportunities at CUCM are communicated to organizations dedicated to finding employment for Aboriginals, visible minorities and disabled persons. In 2006, CUCM continued to support its **diversity** program by participating in the Manitoba Aboriginal/ Black Youth Internship Program and continued to administer diversity training to staff.

Further work continued in support of CUCM's **succession planning** process, including the development, in 2006, of a Leadership Assessment and Development program. The program is designed to enhance skills in the core leadership competencies that are crucial for current and future leaders to manage and lead CUCM.

Led and managed by the Human Resources department, the **United Way All Charities Campaign** is a perennial favourite among CUCM and Celero staff, who get to let their hair down a little, wear jeans and take part in fun lunches and special events. Through a joint sponsorship with four Manitoba credit unions, CUCM also supports the **Account Executive Program**, whereby a credit union representative spends three months visiting Winnipeg area businesses to increase support for the United Way.

And, as per its **corporate giving policy** of matching employees' donations to qualifying charities, CUCM donated nearly $30,000 to civic, provincial, national and international charities in 2006.

In response to the January 1, 2007 amalgamation of Assiniboine, Astra and Vantis credit unions, the board approved changes to **CUCM's district structure** recommended by the system's Democratic Control Review Committee (DCRC). The committee proposed changes that best met the DCRC principles and could be made efficiently, with the least amount of disruption to the existing system governance structure. The change entails South Interlake moving to District 5 from 9 and Altona moving to District 9 from 8.

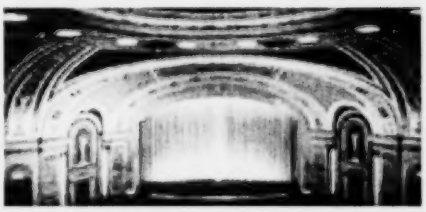


Grand opening — April 21, 2006
CUCM and Celero staff representatives mingle with dignitaries and guests on the second floor terrace at the official opening of 317 Donald.

***Cutting the ribbon** (from left): Celero CEO Dan Delaloye, Manitoba Agriculture Minister Roseann Wowchuk, CUCM Chairman Russ Fast, City of Winnipeg Councillor Mike Pagtakhan, Shindico CEO Sandy Shindleman, CUCM Vice-Chair Wayne McLeod and CUCM CEO Garth Manness.*

DONALD STREET

The new offices of Credit Union Central of Manitoba and Celero Solutions stand on the former site of a Winnipeg landmark. The Famous Players Capitol Theatre was built for the princely sum of $600,000 and opened in 1921. Its main entrance was on Portage Avenue; patrons walked through a walkway over the lane to the 2,200-seat theatre to see the likes of Charlie Chaplin, the Marx Brothers and Bob Hope.



317 Donald was previously home to the landmark Capitol Theatre, which opened in 1921. The Capitol closed in 1990 and was demolished in 2003.

317 Donald was built-to-lease to the requirements of CUCM and Celero. Assessing the companies' needs, developing a business case, finding a suitable location, designing the building and getting it built was an enormous undertaking that took over three years. Although the last of the departments moved into their offices in November 2005, work on the project continued through 2006.

In April, CUCM hosted an official grand opening. Credit union presidents and senior managers, CUCM and Celero staff and representatives of various partner organizations joined guests from the City and Province, CUCM's Chairman, Vice-Chairmen and CEO and Celero's CEO in cutting the ribbon on the new facilities.

317 Donald is one of a number of new buildings and tenants contributing to a renaissance of downtown Winnipeg. The Credit Union Central of Manitoba building sits right behind the new and innovative Mountain Equipment Co-op building and is just a stone's throw from the MTS Centre, one of the busiest sporting and event venues in Canada. Three blocks to the west, Manitoba Hydro's 22-storey office tower is slated for completion in late 2007.

CUCM completed its due diligence on the option to purchase 317 Donald in 2006 and, late in the year, exercised that option.

***Together** with its partners and system-owned suppliers, CUCM is part of an integrated financial product and services network dedicated to the success of Manitoba credit unions.*

Celero Solutions

CELERO SOLUTIONS

Launched in 2003 as a joint venture between five Prairie co-operative organizations — the three Centrals, CUETS and Concentra Financial — Celero is fulfilling its original mandate to deliver reliable, innovative and cost-effective solutions to its parent organizations and clients.

In 2006, Celero initiated a new planning process that engaged the entire organization in crafting its 2007 objectives and goals out to 2009. The engagement process, called Summit 2007, involved virtually every employee and resulted in a prioritized slate of 2007 actions. The outcomes of Summit 2007 have placed Celero firmly on a path toward addressing three strategic imperatives — creating a culture of performance and engagement, delivering service excellence, and profitable growth.

Project Meta, the total replacement of Celero's current four retail banking platforms with a single new solution, is the largest and most complex technology project ever undertaken within the credit union system. Celero is crafting its strategies to ensure that existing systems continue to function at high levels of reliability while the entirely new infrastructure is brought on stream.

Over the course of the year, Celero reduced costs by $4 million. By the end of the year, Celero's financial performance in 2006 had exceeded expectations.

EVERLINK SERVICES

EVERLINK SERVICES

Owned by Celero Solutions and Metavante Corporation, a major player in the U.S. switching market, Everlink was created in 2003 when Canadian Central was in the market for a single, consolidated switching solution for Canadian credit unions. Launching Everlink was a business opportunity that fit within Celero's mandate of sourcing and developing new I/T business for the benefit of its owners and customers.

In 2005, Everlink was successful in signing Prairie credit unions on to the CUCC node, but credit unions in B.C., Ontario and Atlantic Canada chose to stay with CGI. In early 2006, Everlink finalized the purchase of CGI's switching assets, which resulted in Everlink becoming the switch supplier to over 90 per cent of all Canadian credit union switch business.

[THE CO-OPERATIVE PRINCIPLES]

The Seven International Co-operative Principles are guidelines by which co-operatives put their values into practice. Part of CUCM's mission is to promote these principles.

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Established in 2003, the Manitoba Credit Unions Order of Merit Award recognizes individuals who — whether as employees or elected officials — have demonstrated a significant commitment to Manitoba credit unions and the communities in which they operate. Each year, up to three individuals are selected to receive the award, based on their exemplary service to Manitoba credit unions, the leadership they've shown in the preservation and extension of the philosophy of people helping people, and their commitment to the Seven International Co-operative Principles.

In addition to the commemorative plaque they receive as part of the award, recipients or their representatives also have the honour of selecting a Manitoba secondary or post-secondary educational institution and faculty or program to receive a bursary to award to a student based on achievement, need or other criteria.

In 2005, the Credit Union Managers' Association of Manitoba matched CUCM's $500, bringing the total value of the bursary to $1,000 per student.

Also in that year, the Order of Merit selection committee created a special Pioneer category to allow for the recognition of nominees for whom sufficient records of their lifelong involvement in the wider system of credit unions did not exist, even though the historical importance of their work was evident.

Evidence of the contribution of both of this year's recipients is found in abundance.

Harold Foster

Harold Foster was nominated for the Order of Merit award by the board of directors of Arborg Credit Union, a body on which he served for nearly 30 years, from 1975 to 2004. From 1981 to 2002 he served as Arborg Credit Union's president. From 1983 to 2001, Harold represented District 6 credit unions on the board of Credit Union Central of Manitoba, during which time he served on the System Credit and Orderly Development committees, the board of Co-operative Trust (Concentra Financial) and the Wasagaming Foundation. He was also regional representative on the Cooperators board from 1983 to 2001.

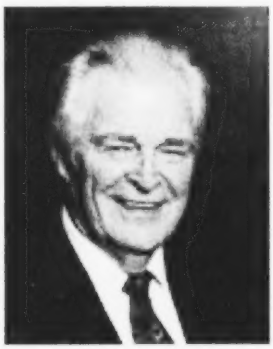
A recipient, in 2003, of a Distinguished Cooperator Award from the Manitoba Co-operative Association, Harold's record of community service outside the credit union system is also extensive. For the past 10 years he has served as Reeve of the RM of Bifrost and has, over the years, served as chairman or board member of the Arborg & District Agricultural Society, Association of Manitoba Municipalities, Bifrost Arborg Riverton Waste Site, East Interlake Conservation District, East Interlake Planning District, Interlake Natural Gas Co-op, Manitoba Conservation Districts Association, Northstar Co-operative Cheese Plant and the Vidir Community Club.

Harold and his brother, Ken, operate the Foster family farm in the Arborg area.

Harold has asked that the $1,000 Manitoba Credit Union Order of Merit bursary go to a student graduating from Arborg Collegiate who has donated his or her time throughout high school to volunteering and community service.

Stan Scarr

Stan Scarr was president of Winnipeg Police Credit Union from 1976 to 2006 and served on its board for 44 years — well over half the time credit unions have existed in Manitoba. A 2002 inductee into the national Credit Union Hall of Fame, Stan was nominated for the Manitoba Credit Union Order of Merit award by the board of Winnipeg Police Credit Union.



Stan served on the board of Credit Union Central of Manitoba for eight years, beginning in 1993 — as president from 1996 to 2001. During his time on the CUCM board, he served on the Audit and System Credit committees, CUDGC's Rewards and Sanctions Committee, Presidents' Forum executive, the board of CUCC and its NSE Governance Task Force. He also chaired the CUCM CEO Selection Committee in 1998–99. During his term as a CUCM director, Stan established a process of periodically meeting with District 4 credit union managers to ensure their views were considered by CUCM, clearly demonstrating his commitment to his role as a co-operative system leader.

Outside the co-operative system, Stan served on boards or volunteered with Cubs and Scouts, Winnipeg Good Neighbours Club, the Winnipeg Museum and Historical Society, Citizenship Council of Manitoba and the Christmas Cheer Board.

Stan had a distinguished 37-year career with the Winnipeg Police Service, from which he retired in 1990 as Deputy Chief of Police.

Stan has asked that the $1,000 Manitoba Credit Union Order of Merit bursary go to a U of M or U of W bound graduate of Kildonan East Collegiate, where all three of his children attended school.

[FINANCIAL STATEMENTS]

AS AT DECEMBER 31, 2006

MANAGEMENT REPORT

The accompanying financial statements were prepared by Management, which is responsible for the integrity and objectivity of the data presented, including amounts that must necessarily be based on judgements and estimates. The financial statements were prepared in conformance with Canadian generally accepted accounting principles, and in situations where acceptable alternative accounting principles exist, Management selected the method that was thought to be most appropriate in the circumstances. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, Management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial reporting to our members rests with the Board of Directors. The Audit Committee, which is appointed by the Board of Directors, meets at least twice a year to review, with Management and the appointed external auditors, the scope of the annual audit and the final audited financial statements.

The financial statements have been examined by PricewaterhouseCoopers LLP, whose report expresses their opinion with respect to the fairness of the presentation of the statements.

GARTH MANNESS
President and
Chief Executive Officer

MIKE SAFINIUK
Treasurer

PRICEWATERHOUSECOOPERS

AUDITORS' REPORT

To the Members of
Credit Union Central of Manitoba Limited

We have audited the balance sheet of Credit Union Central of Manitoba Limited as at December 31, 2006 and the statements of operations and reserves and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

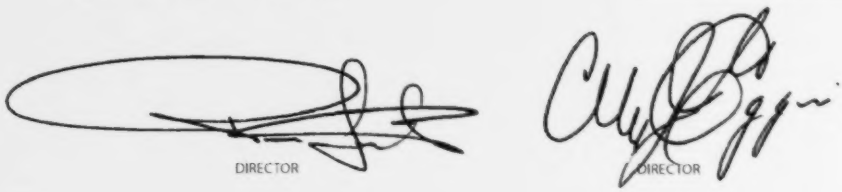
In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS
Winnipeg, Canada
February 21, 2007

Balance Sheet As at December 31, 2006

in thousands of dollars	2006	2005
Assets		
Liquidity pool [note 2]	1,633,897	1,271,262
Intermediation pool [note 3]	94,758	204,220
Service related [note 4]	8,984	9,531
	1,737,639	1,485,013
Liabilities		
Members' deposits	1,634,458	1,395,969
Accounts payable	6,817	5,588
	1,641,275	1,401,557
Members' Equity		
Share capital [note 5]	91,413	79,328
Reserves	4,951	4,128
	96,364	83,456
Approved by the Board of Directors	1,737,639	1,485,013



Statement of Operations and Reserves For the year ended December 31, 2006

in thousands of dollars	2006	2005
Financial revenue		
Liquidity pool	58,691	49,756
Intermediation pool	7,675	4,643
	66,366	54,399
Cost of funds	61,645	49,650
Financial margin	4,721	4,749
Share of Celero's income	1,719	67
Net operating recovery [note 7]	115	141
	1,834	208
Income before credit union patronage rebates	6,555	4,957
Credit union patronage rebates		
Financial margin	539	840
Distribution of Celero's income	1,719	67
	2,258	907
Income before income taxes	4,297	4,050
Provision for income taxes [note 8]	680	695
Net income for the year	3,617	3,355
Reserves — Beginning of year	4,128	3,437
	7,745	6,792
Dividends — net of related income tax savings [note 8]	(2,794)	(2,664)
Reserves — End of year	4,951	4,128

Statement of Cash Flows For the year ended December 31, 2006

in thousands of dollars	2006	2005
Cash provided by (used in)		
Operating activities		
Net income for the year	3,617	3,355
Items not affecting cash		
Depreciation and amortization	1,340	1,095
Provision (Recovery) for future income taxes	(99)	106
	4,858	4,556
Net change in receivables, prepaids, inventories and accounts payable	1,304	(217)
	6,162	4,339
Investing activities		
Decrease (Increase) in liquidity pool securities maturing after three months	68,959	(383,150)
Decrease (Increase) in intermediation pool	109,462	(106,614)
Acquisition of capital assets — net of disposals	(769)	(2,853)
	177,652	(492,617)
Financing activities		
Increase in members' deposits	238,489	114,996
Increase (Decrease) in share capital [note 5]	12,085	(7,809)
Dividends — net of taxes	(2,794)	(2,664)
	247,780	104,523
Increase (Decrease) in cash and cash equivalents	431,594	(383,755)
Cash and cash equivalents — Beginning of year	3,712	387,467
Cash and cash equivalents — End of year	435,306	3,712
Cash and cash equivalents consist of		
Cash (Overdraft)	16,027	(18,417)
Liquidity pool securities maturing within three months	419,279	22,129
	435,306	3,712
Liquidity pool consists of		
Cash and cash equivalents, as above	435,306	3,712
Liquidity pool securities maturing after three months	1,198,591	1,267,550
	1,633,897	1,271,262

[1] Significant accounting policies

These financial statements have been prepared in accordance with the Co-operative Credit Associations Act, which requires them to be in accordance with Canadian generally accepted accounting principles, except as otherwise specified by the Superintendent of Financial Institutions Canada (the "Superintendent"). No such specifications have been made by the Superintendent, and the significant accounting policies used in the preparation of these financial statements are summarized below.

VALUATION

a. Liquidity pool

These investments are carried at cost or amortized cost.

The Organization engages in the back to back sale and purchase of liquidity pool investments to enhance yield. Gains and losses on the disposition of investments are deferred and amortized to income over the lesser of the remaining term to maturity of the original investment or the replacement investment. In undertaking these transactions, there is no material difference in the term to maturity of the original and replacement investments.

The Organization engages in the simultaneous purchase and sale of non portfolio investments. The gain on these transactions is recognized as income at the time of settlement.

Losses resulting from the disposition of liquidity pool investments that are undertaken as a result of significant deterioration in the credit worthiness of the investee are recognized immediately.

b. Intermediation pool and service related

Other than as noted below, these investments are carried at cost or amortized cost.

Equity accounting

Investments over which the Organization has significant influence are accounted for using the equity method. Under this method, the Organization accounts for its share of the net earnings (loss) of the investment. The book value of the investment is adjusted for the share of net earnings (loss) and distributions received from the investee. Investments are written down to recognize losses in the value of the investment that are other than temporary.

Celero Solutions ("Celero") is an unincorporated venture that provides information technology services to the venture participants (owners), credit unions and other organizations. Pursuant to the venture agreement, the Organization has a 25.3% ownership interest in Celero which in turn has a 49% ownership interest in Everlink Payment Services Inc. ("Everlink"), an incorporated entity that provides electronic switching services.

The Organization's share of Celero's net earnings (loss) is based upon the net earnings (loss) of the business lines that it contributed to the venture and its ownership interest in the net earnings (loss) of Celero's remaining operations.

Member credit unions that receive services through Celero are the beneficial owners of the Organization's interest therein. Accordingly, the Organization records an offsetting expense and an amount distributable to member credit unions equal to its share of Celero's net earnings. Conversely, should Celero incur a net loss from operations, the Organization records an offsetting revenue and an amount recoverable from members.

c. Accrued interest

Accrued interest receivable or payable is included with the corresponding principal balance.

DERIVATIVE FINANCIAL INSTRUMENTS

a. Interest rate swap agreements

The Organization enters into interest rate swap agreements ("swaps" or "hedging items") in order to manage its exposure to changes in interest rates. Swaps are designated as hedges of the underlying related assets and liabilities (the "hedged items"). The hedging and hedged items are collectively designated as hedged transactions.

The interest differential to be received or paid under the hedging item is recognized as an adjustment to financial revenue or cost of funds.

In the event that a hedged transaction ceases to be effective, the Organization may continue to hold the hedging item at which time its fair value is determined. The resulting unrealized gain or loss is recognized in earnings on a basis consistent with that of the hedged item.

b. Foreign exchange forward rate agreements

The Organization enters into foreign exchange forward rate agreements in order to manage its exposure to changes in foreign exchange rates. These agreements are marked to market at the financial reporting date.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization are recorded annually by the Organization at rates and on bases determined to charge the cost of capital assets over their estimated useful lives using the straight-line method as follows:

Technology and equipment	3 to 5 years
Furniture	5 to 10 years
Leasehold improvements	remaining term of the lease

INCOME TAXES

The Organization follows the liability method of accounting for income taxes. Under the liability method, future income taxes result from temporary differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. The future income tax asset or liability, is computed at the tax rates that are expected to apply when the assets and liabilities are ultimately settled.

USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from such estimates.

REVISED ACCOUNTING STANDARDS FOR VALUING AND REPORTING FINANCIAL ASSETS AND LIABILITIES

In January 2005, the Canadian Institute of Chartered Accountant's (CICA) Accounting Standards Board issued the following new standards: *Financial Instruments — Recognition and Measurement, Hedges, and Comprehensive Income*; which will be applied by the Organization for its fiscal year beginning on January 1, 2007.

Financial Instruments prescribes when a financial asset, financial liability or non-derivative is to be recognized on the balance sheet and the measurement of such amount. It also specifies how financial instrument gains and losses are to be presented. Hedges is applicable for designated hedging relationships and builds on existing guidance by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. Comprehensive Income introduces new standards for the presentation and disclosure of components of comprehensive income.

The Organization will adopt such standards prospectively and will account for its significant financial statement components as follows:

Liquidity Pool Assets — Accounted for on a fair value basis, excluding investments matched to equity, which will be accounted for on an amortized cost basis;

Intermediation Pool Assets — Accounted for on an amortized cost basis; and

Member's Deposits — Accounted for on a fair value basis.

The Organization continues to refine its fair value methodologies and, with the exception of liquidity pool assets matched to equity, expects the impact of this change in accounting policy to be materially consistent with the information described under note 14 of these financial statements.

[2] Liquidity Pool

in thousands of dollars	2006	2005
Cash (Overdraft)	16,027	(18,417)
Debt Securities		
Governments	25,627	100,540
Banks and trust companies	824,556	796,991
Corporate	768,687	393,148
Non-specific provision for doubtful securities	(1,000)	(1,000)
	1,633,897	1,271,262

The Organization serves as a source of liquidity for member credit unions. As such, all of the assets in the liquidity pool are readily convertible into cash.

[3] Intermediation pool

in thousands of dollars	2006	2005
Member loans and investments		
Credit unions	72,953	183,756
Co-operatives	1,562	1,555
Shares		
Credit Union Central of Canada	3,628	3,591
Co-operatives	5,161	4,908
Mortgage and loan investments	601	714
Investment in Celero		
Loans receivable	9,981	9,972
Share of undistributed earnings (loss)	872	(276)
	94,758	204,220

[4] Service related assets

in thousands of dollars	2006	2005
Technology and equipment, furniture and leasehold improvements (including capitalized costs) [note 7]	10,064	9,336
Accumulated depreciation and amortization	(5,089)	(3,790)
	4,975	5,546
Receivables	2,946	3,619
Prepaids and inventories	885	287
Future income taxes [note 8]	178	79
	8,984	9,531

Depreciation and amortization recorded during the year was $1,340,000 (2005 — $1,095,000).

[5] Share capital

AUTHORIZED

Share capital consists of an unlimited number of Class I and II shares, to be issued and redeemed at $5 each.

MEMBERSHIP

Every member of the Organization is required to own a minimum of two Class I shares.

Pursuant to the Organization's by-laws, member credit unions maintain investments in both classes of shares proportionate to their statutory (Class I) and excess (Class II) liquidity deposits held by the Organization.

RIGHTS AND PRIVILEGES

At the discretion of the Organization's directors, dividends may be declared and paid to either or both classes of shares. On any return of capital, the holders of Class II shares have a preferential claim on the Organization's assets.

ISSUED AND OUTSTANDING

in thousands of dollars	2006	2005
Class I		
Manitoba credit unions	41,630	35,500
Co-operatives	1,228	1,228
Class II		
Manitoba credit unions	48,555	42,600
	91,413	79,328

During the year, $6,130,000 (2005 — $1,953,000) of Class I shares and $10,055,000 (2005 — $3,224,000) of Class II shares were issued for cash consideration, and nil (2005 — $62,000) of Class I shares and $4,100,000 (2005 — $12,924,000) of Class II shares were redeemed.

[6] Related party transactions

The Organization and Celero provide various services to each other in the normal course of operations and such services are measured at the exchange amount. During the year, the Organization's charges to Celero aggregated $2,644,000 (2005 — $2,306,000) and Celero's charges to the Organization aggregated $508,000 (2005 — $400,000). The net recovery from Celero of $2,136,000 (2005 — $1,906,000) is included as an offset to net operating expense. [note 7]

Interest charges to Celero were $572,000 (2005 — $233,000) for the year.

Accounts receivable include $28,000 due from Celero (2005 — $277,000).

[7] Net operating recovery

in thousands of dollars	2006	2005
Recoveries from members		
Clearing fees and other financial charges	6,055	5,782
Basic assessment	3,633	3,447
Fee for service	2,454	1,616
Liquidity management assessment	951	659
Printing and supplies — net of cost of $969 (2005 — $1,061)	338	377
The Credit Union Deposit Guarantee Corporation fees	201	252
Patronage rebate — The Co-operators	182	386
	13,814	12,519
Operating expenses		
Personnel	6,999	7,003
Occupancy	1,950	1,123
Depreciation, amortization and leasing	1,562	1,259
National shared costs	1,324	1,256
Settlement costs	886	913
Professional services	827	496
Co-operative democracy	448	433
General	402	587
Hardware and software maintenance	369	407
Printing and supplies	305	299
Travel	233	226
Dues, grants and memberships	203	209
Insurance and bonding	134	109
Telephone and computer telecommunications	125	136
Postage and delivery	68	102
Net recovery from Celero	(2,136)	(1,906)
Costs capitalized to service related assets [note 4]	—	(274)
	13,699	12,378
Net operating recovery	115	141

[8] Provision for income taxes

The Organization provides for income taxes at statutory rates of 17.6% (2005 — 18.1%) as determined below:

shown as %	2006	2005
Federal base rate	38.0	38.0
Federal abatement	(10.0)	(10.0)
Additional deduction for credit unions	(16.0)	(16.0)
Federal surtax	1.1	1.1
Net federal tax rate	13.1	13.1
Provincial tax rate	4.5	5.0
	17.6	18.1

The Organization's accounting income for tax purposes and related provision for income taxes are as follows:

in thousands of dollars	2006	2005
Income before income taxes	4,297	4,050
Non-taxable items		
Dividends on Co-operative shares	(404)	(333)
All other adjustments	57	100
Accounting income for tax purposes	3,950	3,817

in thousands of dollars	2006	2005
Expected provision for income taxes at statutory rates	696	691
Other adjustments — net	(16)	4
Provision for income taxes on accounting income for tax purposes	680	695
Income tax savings on the payment of dividends	(598)	(589)
Provision for income taxes	82	106

Dividends charged against reserves are net of the foregoing related income tax savings of $598,000 (2005 — $589,000).

The components of the provision for income taxes are as follows:

in thousands of dollars	2006	2005
Provision for current income taxes	181	—
Provision (Recovery) for future income taxes	(99)	106
Provision for income taxes	82	106

The significant components of future income taxes [note 4] are as follows:

in thousands of dollars	2006	2005
Temporary differences between the net book value of certain expenditures for accounting purposes and tax purposes	(108)	(129)
Non-specific provision for doubtful securities	176	176
Provisions for expenditure currently not deductible for income tax purposes	110	32
Future income taxes	178	79

[9] Directors' expenses

Directors received remuneration of $180,000 (2005 — $177,000) and expense reimbursement of $42,000 (2005 — $33,000).

[10] Pension Plan

The Organization has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Organization matches employee contributions at the rate of 6% of the employee salary. The expense and payments for the year ended December 31, 2006 were $299,000 (2005 — $284,000). As a defined contribution pension plan, the Organization has no further liability or obligation for future contributions to fund benefits to plan members.

[11] Commitments

a. CELERO

Celero has entered into a *Software License Agreement* in respect of a new banking platform for Celero's credit union clients under which Celero is committed to pay $9,498,000 in software license fees over the next two years. Celero is also committed under the terms of the agreement to pay a total of $26,077,000 in software maintenance fees over the next nine years. Celero has entered into agreements with credit unions to recover these costs through license and fixed and variable implementation fees over the term of these agreements.

Pursuant to various addendums to the *Software License Agreement*, Celero is committed to pay ancillary product license fees of $4,433,000 in 2007 and $13,329,000 in maintenance fees over the next nine years.

Celero has obligations under various agreements for equipment, licensing, maintenance and professional fees with payments aggregating $4,967,000 over the next five years.

The Organization is indirectly liable in proportion to its ownership interest (25.3%) in Celero, for all of Celero's covenants and obligations under these agreements. Proportionate commitments in each of the next five years are as follows:

in thousands of dollars	Banking Platform	Ancillary Products	Other	Total
2007	1,769	1,431	707	3,907
2008	1,888	426	344	2,658
2009	763	377	88	1,228
2010	763	377	88	1,228
2011	763	377	29	1,169

b. EVERLINK

Celero has a 49% ownership interest in Everlink. In proportion to its 25.3% ownership interest in Celero, the Organization is indirectly liable for all of Celero's covenants and obligations under the following Everlink agreements.

Purchase of Switching Business

Under the terms of an *Asset Purchase Agreement* Everlink acquired switching assets from third parties ("Vendor"). Everlink's principal remaining obligations under the purchase agreement are to continue to perform certain assumed obligations relating to customer and supplier contracts assigned to Everlink by the Vendor. These obligations expire in 2012.

Similar obligations exist under ancillary service agreements with the Vendor to provide switching services to the Vendor's customers which expire in 2013.

Celero has provided a guarantee on these agreements in proportion to its ownership interest (49%) in Everlink. In the normal course of business, Everlink has met, and is expected to meet, all of its obligations under these agreements.

Financing Arrangements

Everlink has entered into financing agreements, consisting of a line of credit to a maximum of $2,000,000 and an authorized overdraft facility to a maximum of $6,500,000. Celero has provided a guarantee on these agreements in proportion to its interest in Everlink. At December 31, 2006 there were no draws against the line of credit or the authorized overdraft facility.

[12] Guarantees

The Organization has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Organization from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Organization maintains liability insurance coverage for directors and officers.

[13] Asset/Liability Management

The Organization has established policies and related reporting to manage its exposure to fluctuating interest rates (referred to as interest rate risk) and to movements in foreign exchange rates (referred to as foreign exchange risk). In the absence of these policies, the Organization's earnings would be impacted, either positively or negatively, as interest and exchange rates change. Additionally, the Organization is potentially exposed to financial loss resulting from the failure of a counterparty to fully honour its financial or contractual obligations relating to derivative contracts (referred to as credit risk).

The Organization also acts as an intermediary for its members in the management of interest rate risk and foreign exchange risk.

a. INTEREST RATE RISK

One of the major sources of income for the Organization is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits.

The objective of "interest rate sensitivity" management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to the term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates. The following summarized schedule shows the Organization's sensitivity to interest rate changes:

in thousands of dollars

Interest repricing period	Interest sensitive	Not interest sensitive	Swaps		Net asset/liability mis-match
			Receiving	Paying	
0 to 6 months	(127,066)	(23,520)	292,484	(142,219)	(321)
6 to 12 months	15,445	(16,127)	111,614	(111,614)	(682)
1 to 2 years	82,597	(25,355)	—	(56,943)	299
2 to 3 years	22,374	(10,666)	—	(11,322)	386
3 to 4 years	52,314	(9,235)	—	(43,000)	79
4 to 5 years	54,404	(15,165)	—	(39,000)	239
	100,068	(100,068)	404,098	(404,098)	—

The average interest rate for interest-bearing assets is 4.18% and for interest-bearing liabilities is 3.92%.

A significant amount of investments and deposits can be sold or redeemed before maturity, but no adjustment has been made for sales or redemptions that may occur. Amounts that are not interest sensitive have been categorized in repricing periods that correspond to the Organization's asset/liability deployment policies and investment strategies.

A positive asset/liability mis-match for a given interest repricing period (period gap) indicates that a rise in interest rates would increase the Organization's financial margin effective with that period while a fall in interest rates would decrease the financial margin. If the period gap for a given repricing period is negative, then an increase or decrease would have the opposite effect from a positive gap. The Organization has established a policy to limit the mis-match in each period to prevent significant financial margin fluctuations.

The Organization enters into interest rate swap agreements (swaps) for the purpose of managing interest rate risk, the notional amounts of which are reflected in the table above. A swap is a contractual agreement between the Organization and a counterparty involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Organization's interest rate risk to a level which management believes is reasonable. The Organization does not enter into swaps for speculative purposes.

Additionally, the Organization, in its role as a financial intermediary, has entered into interest rate swap agreements, and index-linked swap agreements, on behalf of its member credit unions. The credit risk associated with the interest rate agreements is the responsibility of the member credit unions. The credit risk associated with the index-linked agreements is the responsibility of the Organization.

b. FOREIGN EXCHANGE RISK

The Organization has assets and liabilities denominated in U.S. dollars. The Organization has established a policy to limit its exposure to changes in the U.S. dollar exchange rate to prevent significant financial margin fluctuations.

The Organization enters into foreign exchange forward rate agreements for the purpose of ensuring that its policy limitation is not exceeded and to provide a financial intermediary role for credit unions. A foreign exchange forward rate agreement is a contractual arrangement between the Organization and a counterparty involving the commitment of a purchase or sale of U.S. dollar funds to settle on a future date at a predetermined exchange rate. The Organization does not enter into forward rate agreements for speculative purposes.

As at December 31, 2006, the Organization has entered into foreign exchange forward rate agreements to buy U.S. dollars aggregating U.S. $7,923,000 and to sell U.S. dollars aggregating U.S. $7,474,000, inclusive of transactions with member credit unions. The credit risk associated with these agreements is the responsibility of the Organization.

c. CREDIT RISK

The Organization's exposure to credit risk, represented by the cost to replace swap agreements in the event of the failure of a counterparty, is $6,837,831 as at December 31, 2006. The counterparty for all such agreements is restricted to the major chartered banks, and therefore management considers the Organization's credit risk to be negligible.

14 Fair values of financial assets and liabilities

The following table presents the fair values of all financial assets and liabilities of the Organization. Differences between book value and fair value are caused by differences between the interest rate obtained at the time of the original investment or deposit and the current rate for the same product. Investments and deposits that are priced with variable rates have a fair value approximately equal to book value, as they are priced at current interest rates. Accounts receivable and accounts payable book values approximate fair value due to their short term nature.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in current transactions between willing parties, the Organization normally holds all of its fixed term investments and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates, and may not be indicative of net realizable value.

The excess of the book value of assets over fair values represents an unrealized loss to the Organization. The excess of the book value of liabilities over fair values represents an unrealized gain to the Organization.

in thousands of dollars	**Book value**	**Fair value**	**Unrealized Gain (Loss)**
Assets			
Liquidity pool	1,633,897	1,621,397	(12,500)
Intermediation pool	94,758	94,758	—
Net swap agreements	—	6,126	6,126
Liabilities			
Members' deposits	1,634,458	1,627,786	6,672

15 Subsequent Event

On January 18, 2007, the Organization exercised its option to acquire 100% ownership of the land and building at 317 Donald Street, its principal place of business, for cash consideration of $14,300,000.

16 Comparative figures

Certain comparative amounts have been reclassified to conform with the current year's presentation.

DEDICATED TO SERVING MANITOBA

The strength of the Manitoba credit union system is people. Please join us in congratulating these individuals who have worked and volunteered to make their credit unions and the system what they are today.

40 FORTY YEARS

George Sawatzky General Manager, Niverville Credit Union
Alvin Wiebe Assistant Manager, Niverville Credit Union

35 THIRTY-FIVE YEARS

Bill Burla Director, Ethelbert Credit Union
Fran Derksen Finance & Administration Manager, Altona CU
Elizabeth Kehler Data Service Consultant, Niverville Credit Union
Wayne McLeod Chief Executive Officer, Westoba Credit Union

30 THIRTY YEARS

Colette Carriere Assistant Manager, LaSalle Credit Union
Don Clarke Vice-Chairman, Hartney Credit Union
Raymond Cormier Business Development Manager, LaSalle CU
Warren McLeod Loans Manager, Beautiful Plains Credit Union
Don Palmer Operations Manager, Beautiful Plains Credit Union
Deborah Reimer Member Service Representative, Niverville CU
Andy Seniuk General Manager, Ethelbert Credit Union
Sheryl Shaw Quality Assurance Analyst, Celero Solutions
Carol Taylor Member Services Manager, Minnedosa Credit Union
Judy Wahl Teller Supervisor, Agassiz Credit Union
Dale Ward Corporate Secretary, Credit Union Central of Manitoba

[OAK BANK CREDIT UNION
celebrated its 60th anniversary
on April 10, 2006]

25 TWENTY-FIVE YEARS

Gerald Arbez Past-President, LaSalle Credit Union
Susan Chartier Account Manager, Agassiz Credit Union
Tammy Davey MacGregor Branch Manager, Austin Credit Union
Liana DeGraeve Austin Branch Manager, Austin Credit Union
Robert Dueck Manager Special Services, Steinbach Credit Union
Dorothy Elias Financial Services Representative, Heartland CU
Liz Fehr Supervisor of Operations, Agassiz Credit Union
Thomas Fehr Secretary, Flin Flon Credit Union
Steve Giesbrecht Loans Manager, Altona Credit Union
Reuben Hagan Vice-President, Flin Flon Credit Union
Amelia Humeny Human Resources Co-ordinator, Cambrian CU
Cindy Janzen Supervisor of Member Services, Agassiz CU
Fred Johnson Support Analyst, Celero Solutions
Sandy Jonasson Loans Officer, Arborg Credit Union
Keith Jury President, Beautiful Plains Credit Union
Sherri King Loans Officer I, Westoba Credit Union
Helen Krawchuk-Suchy Accountant, Carpathia Credit Union
Anita Kroeker Member Services Rep (retired), Crosstown CU
Nettie Lepage Loans Officer III, Westoba Credit Union
Rick Male VP–Retail Credit & Support Services, Cambrian CU
Lori Nadin Account Manager, Agassiz Credit Union
Sandra Normandeau Supervisor, Printing & Supply, CUCM
Albert Paziuk Director, Ethelbert Credit Union
Karin Penner Training Consultant, Celero Solutions
Valerie Penner Teller, Altona Credit Union
Donna Peters Support Analyst, Celero Solutions
Ruth Reimer Loan Compliance Administrator, Steinbach CU
Brenda Roberts Loans Officer II, Westoba Credit Union
Bill Sandell Chief Financial Officer, Crosstown Credit Union
Calvin Schellenberg Director & Vice-President, Niverville CU
Bragi Simundsson Director, Arborg Credit Union
Adele Smith Loans Officer II, Westoba Credit Union
Linda Sundell Branch Manager, Westoba Credit Union
Karen Wise Member Services Supervisor, Westoba Credit Union
Jerry Woloshyn Chief Executive Officer, Alliance Credit Union

Credit Union Central of Manitoba Limited

Incorporated in 1950 by Statute of
the Province of Manitoba, Canada

CREDIT SOCIETY / AGENT BANK

Credit Union Central of Canada
Bank of Nova Scotia

EXTERNAL AUDITORS

PricewaterhouseCoopers LLP

SOLICITORS

PITBLADO LLP

CONSULTING ACTUARIES

Dr. John Loxley
Dr. Brian Oleson

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